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An Economic Profile of the Omaha Office Space Market

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By Donald A. Nielsen

Introduction

DURING the first half of the twentieth century, the distance between residence and worksite tended to increase in most American cities for white collar office workers and managers. This was due to increases in real income, improvements in transportation networks, and the increased availability of the automobile to the middle income class, all of which correlated with the purchase of new homes in the suburbs. Traditionally, the journey to work took the labor force from their homes in the suburbs to areas in or near the central business district or to the financial center of the city. In the past 25 years, however, the location and construction of many offices and other traditional uses of downtown space away from these centers into the suburbs has begun to decrease the journey to work for a number of office workers.

In Omaha, the completion of the urban portions of Interstate corridors I-80/I-480/I-680 and the modification of major east-west arterials such as Dodge Street to increase their traffic carrying capacities has aided in the reduction of distance and travel time for many commuting office workers. This has been accomplished by improving access to larger, cheaper land packages for the location of office buildings in the suburbs and on the developing perimeter of the city along or near these route corridors as well as along non-interstate radial streets anchored to the central business district.

The past decade has witnessed a burgeoning of office space growth in Omaha and its immediate Douglas County environs. Historically, office space was concentrated in the downtown zone (east of 24th Street to the Missouri River) and the adjacent midtown zone (24th to 60th Streets), but since 1965, most new space has been constructed west of 60th Street, thus giving the city three zones of office space concentration—downtown, midtown, and suburban. The 1965 completion of Interstate I-80/I-480 from the southwestern margin of the city's built-up area to the central business district contributed to the development and maintenance of this triad of office space concentrations in Omaha.

The purpose of this article is to provide a profile of the Omaha office space market within this spatial pattern of development by examining the evolving locational distribution among the three zones and to identify the current levels and trends for vacancies and rents as well as absorption rates for this market. The boundaries of these three zones were selected for the study to allow consistent geographical comparisons with earlier studies of the Omaha office market.

Data Sources

The study makes use of a variety of private telephone surveys taken over a number of years. These surveys are appropriately footnoted at the bottom of the tables where they have been employed. Since these surveys were taken by different parties, the consistency of the data varies from survey to survey. Thus, minor inconsistencies between some of the tables do appear. However, while totally consistent data sources are not available, the author feels that some helpful insights concerning the office space market can still be gained by piecing together these studies which have spread throughout the real estate community in a variety of copied forms.

Office Space Construction

Omaha and its immediate Douglas County environs contained more than 4.1 million square feet of office space prior to 1965, according to surveys conducted by the Omaha Chamber of Commerce and by Harold Hornbeck and Armin K. Ludwig. (See Table 1.) These surveys enumerated only those privately and corporately owned office buildings with 3,000 or more square feet of gross space that were in existence in November, 1975.[1] Nearly 60 percent of this space (2.4 million square feet) was concentrated downtown. One quarter of the total (1.1 million square feet) was located in midtown, while only 15 percent (644,000 square feet) was suburban. (See Table 2.)

During the 1965-1975 decade of rapid expansion, 3.2 million square feet were added to Omaha's stock of office space, a gain of 76 percent. All the zones experienced increases, but these increases were unequally distributed. More than 60 percent of the increment (1.9 million square feet) was suburban, while fully

TABLE 1
OMAHA OFFICE BUILDING COMPLETIONS BY ZONE[a/]

	Downtown Missouri River to 24th St.				Midtown 24th to 60th St.				Suburban West of 60th St.				Total			
	Buildings		Floor Space		Buildings		Floor Space		Buildings		Floor Space		Buildings		Floor Space	
	No.	%	Square Feet	%	No.	%	Square Feet	%	No.	%	Square Feet	%	No.	%	Square Feet	%
Existing office[b/] buildings put in place prior to 1965	26	60.5	2,423,629	52.2	26	63.4	1,063,105	81.7	16	11.0	644,533	12.5	68	29.7	4,131,267	37.2
Existing office[b/] buildings put in place during the period 1965-1975	10	23.3	1,070,600	23.1	13	31.7	172,110	13.2	67	46.2	1,917,901	37.1	90	39.3	3,160,611	28.4
Existing office[c/] buildings put in place during the period 1976-1980	2	4.7	615,000	13.2	2	4.9	66,000	5.1	46	31.8	2,112,488	40.8	50	21.8	2,793,488	25.1
Existing office[d/] buildings put in place during the period 1981-1982	5	11.5	531,825	11.5	0	0	0	0	16	11.0	497,998	9.6	21	9.2	1,029,823	9.3
Total existing office buildings 1982	43	100.0	4,641,054	100.0	41	100.0	1,301,215	100.0	145	100.0	5,172,920	100.0	229	100.0	11,115,189	100.0

[a/] Includes only those privately or corporately owned office buildings with 3,000 or more square feet of floor space in existence at the time of the cited studies. Any conclusions about the distribution of office space across time periods, therefore, are subject to the limitations of the methodologies.

[b/] Source: Armin K. Ludwig, "The Changing Distribution of Omaha's Office Space," *Review of Applied Urban Research*, January, 1976, Vol. 4, No. 1, p. 2.

[c/] Source: R. J. Wilson Company Survey, April, 1981.

[d/] Source: R. J. Wilson Company Survey, November, 1982 and *Midlands Business Journal Survey*, July, 1982.

another third (1.0 million square feet) was downtown. Midtown received only 5 percent of this gain, or less than 200,000 square feet.

By November, 1975 Omaha and its environs contained nearly 7.3 million square feet of office space. Although downtown still held more space than either of the other two zones, its nearly 3.5 million square feet represented slightly less than half of the city's total. The suburban proportion rose to more than 35 percent (2.6 million square in the suburban area or nearly 4.7 million square feet.

During the period 1976-1980, 2.8 million square feet were added to Omaha's stock of office space, a gain of 37.4 percent. This increase was distributed between downtown which received 22 percent of the gain (615,000 square feet), the midtown area which received 2.4 percent (66,000 square feet), and the suburban area west of 60th Street which received 75.6 percent (2.1 million square feet).

TABLE 2
PERCENTAGE DISTRIBUTION OF TOTAL OFFICE SPACE[a/] BY ZONE FOR SELECTED YEARS

	Downtown	Midtown	Suburban	Total
1965	58.7	25.7	15.6	100
1975	47.9	16.9	35.2	100
1980	40.7	12.9	46.4	100
1982	41.8	11.7	46.5	100

[a/] These data are based on data in Table 1. See footnote [a/] of that table for a caveat on interpretation.

However, the 615,000 square feet in the downtown zone consisted of two new structures that were subsidized by government and a government regulated industry. These buildings were the Peter Kiewit Conference Center/State Office Building and the Northwestern Bell Telephone Building. The latter added a total of 515,000 square feet while the State Office Building added 250,000 square feet where 60 percent of the space is dedicated to education and conference facilities and 40 percent or 100,000 square feet to state offices. While these buildings did not add directly to the supply of available office space for lease, they indirectly impacted the demand since occupants of these buildings were no longer competing for available space in the downtown area.

Moreover, these two buildings generally reflect the viability of downtown as an office, business headquarters, and administrative center. However, their inclusion greatly alters the perception of private downtown office demand since government and quasi-government operations are generally investor types that have demand built in at full or close to full occupancy prior to construction.

If these two structures are deleted from the private rental market, during the 1976-1980 period a total of 2.2 million square feet was added to Omaha's stock of office space or a gain of 29 percent. This increase was distributed between the midtown zone which received 3 percent of the gain and the suburban zone which received 97 percent. By July, 1980 Omaha and its environs contained over 10 million square feet of office space with a distribution of 41 percent in the downtown area or nearly 3.5 million square feet, 13 percent in the midtown area or approximately 1.3 million square feet, and 46 percent in the suburban area or nearly 4.7 million square feet.

During the period 1981-1982, just over 1 million square feet were added to the stock of office space for lease in Omaha or a gain of 10.3 percent from 1980. This increase was distributed between the downtown zone which received 51.6 percent of the gain and the suburban zone which received 48.4 percent of the gain indicating a renewed interest in the downtown zone.

Prior to 1965, the downtown and the midtown zones each had 26 office buildings while the suburban zone had only 16. During the 1965-1975 growth decade, the number of buildings in the former two zones increased at 38 and 50 percent respectively, but suburban office buildings increased fourfold.

From 1976-1980, no new strictly private buildings were constructed for leasing in the downtown area while the suburban area added 46 office buildings, and the midtown area added two new structures.

During 1981-1982, five office buildings were added to the downtown stock. Only one of these buildings was strictly new, the Central Park Plaza. The other four buildings were previously constructed structures that were or are being renovated and converted to office space. These were the Yellow Building at 1209 Harney, originally constructed in 1880 and renovated in early 1981, and the Historic Omaha Library Building at 18th and Harney, originally constructed in 1892 and renovated in 1982. The two that are currently under renovation are the LeDioyt Landmark-on-the-Mall at 1001 Farnam, formerly the Good Specialty Building constructed in 1880, and the Burlington Building at 10th and Farnam which was built in 1878.

No new buildings were constructed in the midtown zone during the period of 1981-82. Of the total of 21 buildings added to the stock of Omaha office space during this period, the suburban zone received 16 or 76 percent of the incremental additions.

Vacancies and Rental Trends

Tables 3 and 4 present profiles of the levels and trends of vacancy and rental rates between 1979-1982 for the Omaha office market by location.

During 1979, the Omaha office market experienced an overall vacancy rate of 11 percent with 12 percent of the total downtown space being available and only 10 percent outside of the downtown area west of 60th Street being vacant. By 1982, the overall vacancy rate for the city had risen to 20 percent with buildings located downtown having a 16 percent vacancy rate and the area outside downtown 21 percent. The 21 percent vacancy rate outside the downtown area was distributed mostly in the suburban area with 22 percent while the midtown area experienced a vacancy rate of 16 percent. Clearly, adding additional space between 1979 and 1982 more than doubled the vacancy rate in the midtown and suburban areas and increased the rate in the downtown area. (See Table 3.)

The vacancy rate mix for buildings constructed since 1970 was 12 percent for the entire city in 1979 and increased to 25 percent by 1982. This increase was felt in both the downtown area where the vacancy rate for these newer structures went from 0 to 12 percent and outside the downtown area where it rose from 13 to 26 percent. Similarly, the vacancy rate mix for buildings constructed between 1950-1970 for the entire city rose from 3 percent in 1979 to 11 percent in 1982, rising from 3 to 6 percent in the suburbs and from 5 to 14 percent in the midtown area.

In contrast, the vacancy rate mix for buildings constructed prior to 1950 for the entire city decreased from 20 percent in 1979 to 16 percent in 1982. However, this decrease was not felt so dramatically in the midtown area which decreased from 17 to 16 percent. The suburban area did not have any buildings in the survey. Thus, almost the entire impact of the decrease can be accounted for by the decrease in the downtown area, from 21 percent in 1979 to 16 percent in 1982.

The overall vacancy rate pattern and patterns for the mix of buildings by location as well as by age of structures possibly can be explained by three factors. One is the construction of additional new buildings. The second is an increase in the renovation and conversion of existing older buildings which had previously been used for purposes other than office space, possibly due to the tax incentives for renovating older structures provided by the 1979 Tax Act as refined in the 1981 Economic Recovery Tax Act. The third factor is the general decline of the economy which has impacted Omaha as well as other regions of the country. In brief, the vacancy rate increase is a result of expanding the supply of available space accompanied by a decrease in the rate of office space absorption as a result of business conditions in the Omaha economy.

Rental Rates

Generally speaking, the average rental rates for the mix of office buildings by location as well as by age for the period 1979 to 1982 have increased with the exception of older buildings in the midtown area where they declined. (See Table 4.)

Within the downtown area, buildings constructed between 1950-1970 experienced the greatest increase in rental rates between 1979 and 1982. The average annual rate of change for these structures was 24 percent. Buildings constructed prior to 1950 in the downtown area experienced over a 17 percent average annual rate of increase for this period while buildings constructed since 1970 had only a 12 percent annual rate of change. This pattern of rental rate increases for the downtown area can be explained by the numerous renovations of existing older buildings in the downtown area intended to increase the supply of Class A space to meet the shortage that developed in 1979. These renovations enhanced the quality of space in the older structures and therefore enabled rental rate increases.

In contrast, buildings constructed between 1950-1970 in the midtown area

experienced the greatest increase in rental rates with over a 7.1 percent rise in the average annual rate between 1979-1982 while buildings constructed since 1970 in the suburban area led the average annual rental rate increase at 6 percent during this period. Clearly, buildings outside downtown regardless of age did not experience average annual rental rate increases equivalent to those in the downtown area.

Moreover, rental rates for buildings constructed prior to 1950 in the midtown area actually experienced a decline while those in the downtown area experienced a significantly greater increase.

This pattern of rental rate changes for the period 1979-1982 in the areas outside downtown possibly can be explained by the substantial number of additional buildings constructed since 1970, a total increase of 63. This provided a supply of quality space in newer structures that met the demand for Class A space without the necessity of renovation of older structures.

Absorption Rates

Although the downtown office market was relatively inactive between 1971 and 1979, renovations, conversions, and new construction between 1980 and 1982 indicate a great deal of supply side activity over the last two years. During the period April, 1979 to July, 1982, excluding the Northwestern Bell and Peter Kiewit Buildings, a total of 531,825 square feet of new office space was added to the private sector rental market downtown. Of this total, 112,825 square feet was due to four older buildings being renovated and converted from other uses to office space. These buildings were the Yellow Building, the Historic Library Building, the Burlington Building, and the LeDioyt Landmark-on-the-Mall Building. One building, the Central Park Plaza, contributed 419,000 square feet through new construction.

Of the total 531,825 square feet added to downtown stock, only 267,893 square feet was absorbed, indicating an absorption rate downtown for new and

TABLE 3
PROFILE OF OMAHA OFFICE MARKET–VACANCY TRENDS 1979-1982[a/]

	Downtown (Mjssouri River to 24th Street)		Midtown (24th Street to 60th Street)		Suburban (west of 60th Street)			
	1979	1982	1979	1982	1979	1982	1979	1982
Vacancy rate	12%	16%	7%	16%	10%	22%	11%	20%
All buildings	22	30	29	34	96	159	147	223
Vacancy rate	0	12%	[b/]	32%	13%	26%	12%	25%
Buildings constructed since 1970	2	5	[b/]	4	62	121	64	130
Vacancy rate	1%	16%	5%	14%	3%	6%	3%	11%
Buildings constructed between 1950-1970	3	7	23	22	34	38	60	67
Vacancy rate	21%	16%	17%	16%	[b/]	[b/]	20%	16%
Buildings constructed prior to 1950	17	18	6	8	[b/]	[b/]	23	26

[a/] Source: *Midlands Business Journal Office Space Directories*, July 28, 1982 and April 30, 1979
[b/] No buildings in survey.

TABLE 4
PROFILE OF OMAHA OFFICE MARKET RENTAL TRENDS 1979–1982[a/]

	1979 Average Rental Rate per Square Foot	1982 Average Rental Rate per Square Foot	Average Annual Rate of Change Rental Rates 1979-1982 (%)
Downtown Omaha			
All buildings	$5.81	$ 8.99	+ 18.2
Buildings constructed since 1970	7.25	9.83	+ 11.9
Buildings constructed between 1950-1970	6.25	10.68	+ 23.6
Buildings constructed prior to 1950	4.65	7.08	+ 17.4
Midtown			
All buildings	5.59	6.34	+ 4.5
Buildings constructed since 1970	[b/]	6.63	—
Buildings constructed between 1950-1970	5.65	6.86	+ 7.1
Buildings constructed prior to 1950	5.35	5.11	- 1.5
Suburban			
All buildings	6.77	7.92	+ 5.7
Buildings constructed since 1970	7.07	8.23	+ 5.5
Buildings constructed between 1950-1970	6.36	7.19	+ 4.4
Buildings constructed prior to 1950	[b/]	[b/]	—

[a/] Source: *Midlands Business Journal Office Space Directories*, July 28, 1982 and April 30, 1979.
[b/] No buildings in survey.

renovated buildings of 82,429 square feet per year over the 3.25 year period. This would suggest that, given present available space added by these five buildings alone, a two-year supply exists. If available space for other buildings in the downtown area is included in the analysis, slightly more than a three-year supply exists in the downtown office market based on the 1979-1982 absorption rate.

If the Peter Kiewit and Northwestern Bell buildings are incorporated into the analysis, the total office space added to the downtown area during the period April, 1979 to July, 1982 was 1,146,825 square feet. Of this total, 882,893 square feet was absorbed indicating an absorption rate downtown of 271,657 square feet per year over this 3.25 year period. This would suggest that, given the available supply of space for lease, slightly less than a one-year supply exists in the downtown office market based on the absorption rate of April, 1979 to July, 1982. Obviously, the inclusion of these two buildings dramatically alters the perception of downtown office space demand.

During the period April, 1979 to July, 1982, 1,676,120 square feet of new office space were constructed outside the downtown area. Of this total, 817,541 square feet was absorbed, indicating an absorption rate of 251,551 square feet per year. Thus, the available space of 1,293,830 square feet in 1982 in the area outside downtown is equivalent to slightly more than a five-year supply based upon recent historic absorption rates over a 3.25 year period.

Since these estimates of future supply are based upon absorption rates calculated from the immediate past (due to a lack of historical data to project a longer secular trend), they may reflect the uncertainty of the general state of the economy in the past as well as the desire of office users to escape the deterioration that had set in for the downtown area in the past. Thus, they do not reflect the optimism that presently pervades with respect to an economic turnaround that appears now to be underway.

Also, the construction of the Central Park Plaza Building appears to have triggered a change in perception of the central business district resulting in renewed interest in a revitalized central business district. The cooperative efforts of the public and quasi-public agencies and the private sector have shown initial success in starting to redevelop the central business district. That, combined with the apparent perceptual change, indicates the emergence of a trend toward increased demand for office space in the downtown zone.

Office Space Demand

Generally, the future demand for rental office space in the Omaha area can be attributed to three sources: (1) incubator office space, (2) expansion or upgrading of offices from existing firms, and (3) firms relocating to the area from outside metropolitan Omaha.

Incubator office space is used to house newly created firms in the infant stage of growth. Such firms can either be completely new or independent "spin-offs" of existing successful firms. Given the current state of the Omaha economy, this segment of demand will probably not increase substantially in the near future.

The second segment of future demand for office space in the Omaha area is from expansion or upgrading of offices for existing local firms. Given the availability of space for lease, existing local firms will probably have more choices than in the past. That is, tenants and developers are being affected differently by the increase in available office space. For developers, the increase means projects may take longer to lease. For tenants, it means more choices of location as well as the ability to upgrade their office space. More available space may also indicate a slowing of rent increases with possible decreases in some areas, as well as greater likelihood of concessions in future lease agreements. Thus, the occupancy level of a specific building may depend to a large extent on management and marketing skills as well as established rental rates. With the apparent excess supply developing in the private rental market, what one building gains may be what another building loses.

Also, the general state of the economy in the last two years has caused postponement or cancellation of a number of planned corporate expansions. Moreover, another result of the current economic climate is an increase in office subleasing, which has caused an unexpected impact on the market. Tenants anticipating expansion rented space and are now offering a significant amount of their unused space for sublease.

In the downtown area, this segment of demand appears to have become more significant in the last three months. The merger of the Union Pacific with the Missouri Pacific Railroad has led to a consolidation of office space headquarters in Omaha. As a result, Union Pacific has leased three floors in the newly renovated Braiker-Brandeis Building for five years. Also, a recent directive issued by the Government Services Administration requires all federal agencies that lease space outside the downtown area to relocate downtown when their present leases expire. As a result, H.U.D., which had been leasing office space in the Univac Building of Mid-America Plaza at 72nd and Mercy Road, has relocated downtown in the Braiker-Brandeis Building where they are leasing an entire floor, reportedly less space than they were previously leasing in the outside downtown area.[2]

The third segment of future demand for office space is from firms relocating to the area from outside metropolitan Omaha. At the time of this writing, only one new major firm has announced plans for moving into the Omaha area. That firm is Fireman's Fund Insurance Company which has leased 54,000 square feet in the Univac Building vacated by H.U.D. The lease was reportedly for 10 years with right of first refusal on additional space in the building as present leases of other tenants expire. Thus, this segment of future demand does not appear to be significant within the immediate future for the Omaha area.

Summary and Conclusions

Historically, the downtown area contained a greater percentage of total office space than either the midtown or suburban areas. Between 1976-1980, however, construction in the area west of 60th Street led to a greater percentage of office space being located in the suburban area relative to the midtown and downtown areas. The construction of the Central Park Plaza Building and continued development of the downtown mall appears to have triggered a change in perception of the central business district resulting in a revitalization of interest in the downtown area. As a result, the downtown area has experienced a slight increase in its geographical distribution of the percentage of total office space in the Omaha area. However, the suburban area still contains the greatest share relative to midtown and downtown.

Private market office space construction citywide appears to be in excess of that demanded over the next few years, especially when conversions, renovations, and additions are included. This surplus of office space has resulted in doubling the vacancy rates in the midtown and suburban areas and a substantial increase in the rate for the downtown area over the period April, 1979 to July, 1982. Also contributing to the rise in vacancy rates has been the return to the market of preleased office space for subleasing.

The variation of vacancy rates also appears to be related to the age of the building with higher vacancies experienced by buildings constructed since 1970 in the midtown and suburban areas. In contrast, vacancy rates for buildings constructed since 1970 in the downtown area have generally been lower than for buildings constructed earlier.

Generally speaking, the average rental rates have increased for the period 1979 to 1982 in all three zones regardless of age of building, with the exception of older buildings in the midtown area, where they declined.

Recent absorption rates suggest that the downtown private rental office space market, as a result of recent development, has a slightly more than three-year supply of office space while the outside downtown area has a slightly more than five-year supply. Analysis of future private market demand sources suggest that these estimates might be on the conservative side but are reasonable given current market conditions.

[1]These data and subsequent data sets, therefore, do not account for any deletions of office space inventory prior to the study dates, and any conclusions about the distribution of office space in the earlier time periods are subject to the limitations of the methodology of the previous surveys.

[2]The recent announcement by the Corps of Engineers that they will be relocating additional personnel into the Omaha area is not expected to lead to additional use of office space, according to authoritative sources.

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